SOURCE ENERGY SERVICES

CONSOLIDATED FINANCIAL STATEMENTS

AS AT AND FOR THE YEARS ENDED
DECEMBER 31, 2017, AND 2016

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March 14, 2018

Independent Auditor's Report

To the Shareholders of Source Energy Services Limited

We have audited the accompanying consolidated financial statements of Source Energy Services Limited and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2017 and December 31, 2016 and the consolidated statements of operations and comprehensive loss, changes in equity, and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Source Energy Services Limited and its subsidiaries as at December 31, 2017 and December 31, 2016 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

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SOURCE ENERGY SERVICES LTD.

Consolidated Statement of Financial Position

As at December 31, 2017 and 2016

(All amounts are in thousands of Canadian dollars, unless otherwise noted)

	Note		December 31 2017		December 31 2016 (revised - Note 15)
Assets					
Current assets					
Accounts receivable	4(c)	$	54,114	$	14,634
Prepaid expenses	5		5,455		2,943
Inventories	7		48,984		27,710
Total current assets			108,553		45,287
Deferred income tax	10		8,009		597
Due from related parties	20		-		32
Mineral resources	5,8		31,506		-
Property, plant and equipment	9		319,889		173,490
Total Assets		$	467,957	$	219,406
Liabilities and Equity					
Current liabilities					
Accounts payable and accruals	4(d)	$	38,765	$	21,358
Deferred revenue	11		278		1,792
Derivative liability	4(b)		671		14,817
Current portion of long-term debt	12		33,692		1,109
Total current liabilities			73,406		39,076
Due to related parties	20		-		4,599
Long-term debt	12		95,570		123,242
Derivative liability	4(b),12		2,128		125
Shareholder loan	15		-		36,770
Decommissioning provision	13		14,663		4,300
Preferred shares obligation	14		-		70,513
Total long-term liabilities			112,361		239,549
Total liabilities		$	185,767	$	278,625
Shareholders' Equity (Deficiency)					
Shareholders' equity	15	$	400,812	$	-
Partners' equity	15		-		41,941
Contributed Surplus			5,432		-
Accumulated Deficit			(115,212)		(106,761)
Cumulative translation adjustment			(8,358)		5,601
Shareholders' equity (deficiency)			282,674		(59,219)
Non-controlling interests	15		(484)		-
Total Equity		$	282,190	$	(59,219)
Total Liabilities and Equity		$	467,957	$	219,406

See accompanying Notes to the consolidated financial statements

Commitments and contingencies (Note 19)

Approved on behalf of the Board of Directors:

signed "Marshall McRae
Marshall McRae
Director

signed "Cody Church"
Cody Church
Director

SOURCE ENERGY SERVICES LTD.

Consolidated Statements of Operations and Comprehensive Loss

For the years ended December 31, 2017 and 2016

(All amounts are in thousands of Canadian dollars, unless otherwise noted)

	Note		2017		2016
Sales					
Sand revenue		$	228,403	$	112,962
Wellsite solutions			54,911		21,261
Terminal services			6,184		4,976
Sales		$	289,498	$	139,199
Cost of sales	18	$	225,927	$	123,257
Cost of sales - depreciation and depletion			11,948		8,039
Gross margin		$	51,623	$	7,903
Operating and general & administrative expense	18	$	24,509	$	23,866
Depreciation			6,560		6,373
Income (loss) from operations		$	20,554	$	(22,336)
Other expense (income):					
Loss (gain) on asset disposal		$	(6)	$	1,082
Loss on impairment			-		1,852
Share based compensation expense	16		6,625		-
Finance expense	21		28,342		19,491
Loss (gain) on derivative liability	4(b), 12		(1,581)		910
Other income			(1,266)		(4,859)
Management fees			417		1,043
Foreign exchange loss (gain)			(863)		2,059
Total other expense (income)		$	31,668	$	21,578
Loss before income taxes		$	(11,114)	$	(43,914)
Income taxes					
Current tax expense (recovery)	10	$	-	$	4
Deferred tax expense (recovery)	10		(2,179)		(516)
Total income taxes			(2,179)		(512)
Net loss		$	(8,935)	$	(43,402)
Net loss attributable to shareholders			(8,515)		(43,402)
Net loss attributable to non-controlling interests			(420)		-
Total net loss		$	(8,935)	$	(43,402)
Other comprehensive (income) loss					
Foreign currency translation adjustment (not subject to recycling)		$	13,959	$	906
Consolidated comprehensive loss		$	(22,894)	$	(44,308)
Loss per share (in dollars)					
Basic	17	$	(0.19)	$	(1.82)
Diluted	17	$	(0.19)	$	(1.82)

See accompanying notes to the consolidated financial statements.

SOURCE ENERGY SERVICES LTD.
Consolidated Statements of Changes in Equity
As at and for the years ended December 31, 2017 and 2016
(All amounts are in thousands of Canadian dollars, unless otherwise noted)

		Common share capital							
	Note	Number of Shares	$	Partner's Equity	Contributed Surplus	Cumulative Translation Adjustment	Accumulated Deficit	Non-controlling interests	Total Equity
(Stated in thousands of Canadian dollars)									
Balance at January 1, 2017		**96,880**	**$ -**	**$ 41,941**	**$ -**	**$ 5,601**	**$ (106,761)**	**$ -**	**$ (59,219)**
Issuance of $10 share capital in SESL upon incorporation		**1**	**-**						**-**
Exchange of partnership units for SESL shares		**(71,789)**	**41,941**	**(41,941)**					**-**
Non-controlling interests							**64**	**(64)**	**-**
Common shares issued upon closing of IPO	15	**16,667**	**175,000**						**175,000**
Common shares issued during year		**11,235**	**93,812**						**93,812**
Share capital issuance costs			**(13,443)**						**(13,443)**
Common shares issued on settlement of EEPP		**53**	**554**						**554**
Common shares issued on repayment of shareholder loans	20	**3,587**	**37,658**						**37,658**
Common shares issued on repayment of preferred share obligation	14	**5,212**	**54,727**						**54,727**
Issued on settlement of Relevant Transaction Rights	12	**1,006**	**10,563**						**10,563**
Unrealized foreign exchange loss						(13,959)			**(13,959)**
Share based compensation expense	16				5,432				**5,432**
Net loss							(8,515)	(420)	**(8,935)**
Balance at December 31, 2017		**62,852**	**$ 400,812**	**$ -**	**$ 5,432**	**$ (8,358)**	**$ (115,212)**	**$ (484)**	**$ 282,190**

		Partners Units							
		Number of Units	$	Partner's Equity	Contributed Surplus	Cumulative Translation Adjustment	Accumulated Deficit	Non-controlling interests	Total Equity
Balance at January 1, 2016	15	**96,880**	**$ 41,917**	**$ (53,266)**	**$ -**	**$ 6,507**	**$ -**	**$ -**	**$ (4,842)**
Fair Value of warrants issuance				500					**500**
Promissory Note issuance				(5,500)					**(5,500)**
Unrealized foreign exchange loss						(906)			**(906)**
Share based compensation expense			24						**24**
Distribution to Unitholders				(5,093)					**(5,093)**
Net loss				(43,402)					**(43,402)**
Balance at December 31, 2016		**96,880**	**$ 41,941**	**$ (106,761)**	**$ -**	**$ 5,601**	**$ -**	**$ -**	**$ (59,219)**

See accompanying notes to the consolidated financial statements

SOURCE ENERGY SERVICES LTD.

Consolidated Statements of Cash Flows

As at and for the years ended December 31, 2017 and 2016

(All amounts are in thousands of Canadian dollars, unless otherwise noted)

	Note		2017		2016
Cash Flows Provided by (Used in) Operating Activities					
Net loss		$	(8,935)	$	(43,402)
Adjusted for the following:					
provided by (used in) operating activities:					
Depreciation and depletion			18,508		14,412
Share based compensation	16		6,625		24
Loss (gain) on sale of assets			(6)		1,082
Loss on impairment			-		1,852
Finance expense	21		28,342		19,491
Gain on settlement of deferred revenue			(703)		(3,328)
Deferred income taxes			(2,179)		(516)
Onerous lease costs			324		227
Loss (gain) on derivative liability			(1,581)		910
Deferred revenue			(861)		-
Payments made for decommissioning liability			(1,226)		(3,220)
Net changes in non-cash working capital	6		(31,830)		3,015
Cash flows provided by (used by) operating activities		$	6,478	$	(9,453)
Investing Activities					
Purchase of Preferred Sands assets	5		(110,149)		-
Purchase of Sand Products Wisconsin, LLC	5		(59,914)		-
Purchase of property, plant and equipment			(50,515)		(6,405)
Proceeds on disposal of property, plant and equipment			41		841
Net changes in non-cash working capital	6		6,168		(4,906)
Cash flows used in investing activities		$	(214,369)	$	(10,470)
Financing Activities					
Proceeds on IPO, net of transaction costs	15		161,914		-
Proceeds on share issuance, net of transaction costs	15		88,384		-
Proceeds (payments) on long-term debt			20,569		(68,261)
Proceeds on senior secured notes			-		130,000
Repayment of senior secured notes	12		(22,290)		-
Repayment of finance lease obligations			(1,227)		
Payments on deferred revenue			-		(23,571)
Financing expense paid			(17,130)		(14,953)
Proceeds on shareholder loan			-		2,000
Amount paid for EEPP	16		(409)		-
Payments made to preferred shareholders	14		(17,250)		-
Payments to unitholders			-		(5,093)
Payment of Sand Royalty loan	20		(4,670)		-
Cash flows provided by financing activities		$	207,891	$	20,122
Increase (Decrease) in cash			-		199
Cash and cash equivalents, beginning of period			-		(199)
Cash and cash equivalents, end of period		$	-	$	-

See accompanying notes to the consolidated financial statements.

1. GENERAL DESCRIPTION OF BUSINESS

Source Energy Services Ltd. ("Source" or the "Company") is a fully integrated producer, supplier, and distributer of high quality Northern White frac sand primarily to the Western Canadian Sedimentary Basin (the "WCSB"). Source provides its customer with a full end-to-end solution through its Wisconsin mine assets, processing facilities, unit train capable rail assets, strategically located terminal network and "last mile" logistics capabilities. Source's full-service approach allows customers to rely on its logistics capabilities to increase reliability of supply and to ensure the timely delivery of their growing frac sand requirements. In addition to its transload terminal network and in-basin storage capabilities, Source has also developed Sahara, a proprietary wellsite mobile sand storage and handling system. The Company's head and principal office is located at 500, 438 – 11th Avenue SE, Calgary, Alberta, T2G 0Y4.

On April 13, 2017, the Company completed an initial public offering ("IPO") and issued 16,666,667 common shares for proceeds of $175,000 and began trading on the Toronto Stock Exchange, under the symbol "SHLE". In connection with the IPO, the existing SES Canada LP and SES US LP Company units were exchanged for units of Source common stock, refer to Note 15 for further detail. The Company also settled all related party loans, including its preferred share obligations, amounts due to Sand Royalty LP, and its shareholder loan, refer to Notes 14 and 20 for further detail.

2. BASIS OF PRESENTATION

Statement of compliance

The consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as at March 14, 2018, the date of the final approval of the financial statements by the Board of Directors.

Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis, except for the revaluation of certain financial assets and liabilities to estimated fair value.

Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected.

The following discussion sets forth management's most critical estimates and assumptions in determining the value of assets, liabilities and equity.

Allowance for Doubtful Accounts

The Company performs ongoing credit evaluations of its customers and grants credit based on a review of historical collection experience, current aging status, the customer's financial condition and anticipated industry conditions. Customer payments are regularly monitored and a provision for doubtful accounts is established based on specific situations and overall industry conditions.

Inventories

The Company evaluates its inventory to ensure it is carried at the lower of average cost and net realizable value. Allowances are made against obsolete or damaged inventories and charged to cost of sales. The reversal of any write-down of inventory arising from an increase in net realizable value would be recognized as a reduction in cost of sales in the period in which the reversal occurred.

Depreciation and depletion

The amounts recorded for depreciation of property and equipment are based on estimates of the useful lives of the assets and residual values. This estimated residual value and useful lives of property and equipment are reviewed at the end of each reporting period and adjusted if required.

Mineral resources are depleted using the unit-of-production method based on indicated and inferred resources. Depletion is recorded on a per tonne basis as the reserves are mined.

Decommissioning liabilities

The amounts recorded for decommissioning liabilities are based on the Company's mining activities and the estimated costs to abandon and reclaim the land and facilities, the estimated time period in which these costs will be incurred in the future and the discount and inflation rates. Any changes to these estimates could change the amount of decommissioning liability and may materially impact the consolidated financial statements in future periods.

Income Taxes

The amounts recorded for deferred income taxes are based on estimates as to the timing of the reversal of temporary differences and tax rates currently substantively enacted. Legislation and regulations in the various jurisdictions that the Company operates in are subject to change and differing interpretations require management judgement. Income tax filings are subject to audits, re-assessments and changes in facts, circumstances and interpretations of the standards could result in a material change in the Company's provision for income taxes. As such, income taxes are subject to measurement uncertainty.

Cash-Generating Units (CGUs)

The determination of CGUs is based on management's judgment regarding geographical proximity, shared equipment, and mobility of equipment. Management has determined that the Company's operations represent one CGU.

Impairment of non-financial assets

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (CGUs). Prior impairments of non-financial assets are reviewed for possible reversal at each reporting date.

Embedded Derivatives

An embedded derivative is a component of a contract that modifies the cash flows of the contract. Embedded derivatives are separated from the contract and accounted for as derivative liabilities. Embedded derivatives are measured at Fair Value Through Profit or Loss (FVTPL). The fair value of the derivatives may be based on prices or valuation techniques that require inputs that are not based on observable market data.

Shareholder Loans

Shareholder loans were recorded at fair value, which represented the amount of the loan plus applicable interest. One of the promissory notes bore interest at 25% per annum which was paid in a combination of cash and in-kind interest. Shareholder loans were settled as part of the IPO.

Fair value of assets and liabilities acquired in a business combination

Values are allocated to assets and liabilities acquired based on their estimated fair values at the date of acquisition. Determining the fair value of assets and liabilities acquired, as well as intangible assets that relate to such items is ultimately based on management's assessment of the value of the assets and liabilities acquired and, to the extent available, third party information and assessments. Any excess of the cost of the acquisition over the net fair value of the identifiable assets acquired is recognized as goodwill.

Fair value of equity settled share based payments

The Company uses an option pricing model to determine the fair value of equity settled share based payments. Inputs to the model include various estimates relating to volatility, interest rates, dividend yields and life of the units issued. Fair value inputs are based on market factors as well as internal estimates.

3. SIGNIFICANT ACCOUNTING POLICIES

Inventories

Inventories represent unprocessed mined sand, work in process and sand available for shipment, as well as spare parts and supplies. The Company values inventory at the lower of cost or net realizable value.

Cost is determined using the weighted average cost method. Cost includes the cost of mining of the sand as well as the direct labor costs, utility costs, transportation costs, and other processing costs to wash and dry the sand, as well as depreciation directly attributable to production equipment and depreciation of capitalized stripping activities.

Net realizable value is the estimated selling price less applicable selling expenses. When the weighted average cost of inventories exceeds the net realizable value, inventory is written down to the net realizable value. All write downs are charged to cost of goods sold. The amount of the write down may be reversed (up to original amount of the write down) when there is a change in the economic circumstances.

Foreign currency translation

The consolidated financial statements are presented in Canadian dollars, which is the Company's presentation currency. Each entity of the consolidated statements is measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements of the entities that have a different functional currency are translated into Canadian Dollars. Assets and liabilities are translated at the rate of exchange at the statement of financial position date, revenue and expenses are translated at the average exchange rate for the period (as this is considered a reasonable approximation of actual rates), and gains and losses in translation are recognized in shareholders' equity as accumulated other comprehensive income (loss).

Foreign currency transactions in entities that have Canadian Dollars as the functional currency are translated into the functional currency using the exchange rate prevailing on the transaction date. Foreign exchange gains and losses resulting from the settlement of foreign currency translation and from the translation at period-end exchange rates of monetary assets and liabilities denominated in currencies other than an entity's functional currency are recognized in the Consolidated Statements of Operations and Comprehensive Income (Loss).

Mineral resources

Mineral resources are recognized at cost, which approximates the estimated fair value as of the date of the acquisition. Fair value at the acquisition date is determined by estimating the present value of the raw resources over the life of the mine. These cash flows are discounted at a rate based on the time value of money and risks specific to the Company.

Property, plant and equipment

All costs directly associated with the purchase and development of property, plant and equipment are capitalized and reflected at cost less accumulated depreciation and net impairment losses. Costs of replacing parts of property, plant and equipment are capitalized only when they increase the future economic benefits embodied in the specific assets to which they relate. All other expenditures are recognized in income as incurred. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in the Consolidated Statements of Operations and Comprehensive Income (Loss) as incurred.

Exchanges or swaps of property, plant and equipment are measured at fair value unless the transaction lacks commercial substance or neither the fair value of the asset received nor the asset given up can be reliably estimated. When fair value is not used, the cost of the acquired asset is measured at the carrying amount of the asset given up. Any gains or losses from the divestiture of property and equipment are recognized in the Consolidated Statements of Operations and Comprehensive Income (Loss).

Depreciation of property, plant and equipment is provided using the declining balance method at the following annual rates approximating their estimated useful lives in years:

Buildings	20
Equipment	7 – 15
Vehicles	5 – 7
Computer hardware and software	3 – 5

Depreciation of an asset or an asset under construction begins when it is available for use. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognized. Depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated.

The Company allocates the amount initially recognized in respect of an item of property and equipment to its significant components and depreciates separately each such component where applicable.

The Company adheres to IFRIC 20 “stripping costs in the production phase of a surface mine”. During the production phase of the mine, stripping costs incurred that provide access to a component of reserves that will be produced in future periods and that would not have otherwise been accessible are capitalized. The costs qualifying for capitalization are those costs directly incurred to perform the stripping activity that improves access to the resource body. The stripping activity asset is included as part of the carrying amount of the mining property. Capitalized stripping costs are amortized on a straight-line basis over the production period it relates to. Refer to Note 9 for more details.

Impairment of non-financial assets

The carrying amounts of the Company’s non-financial assets, other than deferred tax assets, are reviewed for indicators of impairment at each reporting period. If indicators of impairment exist, the recoverable amount of the assets is estimated. For purposes of assessing impairment, property, plant and equipment and intangibles are grouped into cash-generating units (“CGUs”), defined as the lowest levels for which there are separately identifiable independent cash inflows.

The recoverable amount of a CGU is the greater of its fair value less costs to dispose and its value in use. Fair value is determined to be the amount for which the asset would be sold in an arm’s length transaction between knowledgeable and willing parties. Value in use is determined by estimating the present value of the future net cash flows to be derived from the continued use of the cash-generating unit in its present form. These cash flows are discounted at a rate based on the time value of money and risks specific to the CGU.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its recoverable amount. An impairment loss recognized in respect of a CGU is allocated to reduce the carrying amounts of the assets in the CGU on a pro rata basis. Impairment losses are recognized in Consolidated Statements of Operations and Comprehensive Income (Loss).

Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Deferred revenue

The Company has entered into agreements with some of its customers where deposits are paid by the customers in exchange for goods and services at a discounted rate. Once received, these deposits have been recorded as deferred revenue on the Company’s Consolidated Statement of Financial Position, and are recognized as revenue as goods and services are provided to the customers, consistent with the Company’s revenue recognition policy.

Provisions and contingent liabilities

Provisions are recognized by the Company when all of the following apply: (i) it has a legal or constructive obligation as a result of past events, (ii) it is probable that an outflow of economic resources will be required to settle the obligation, and (iii) a reliable estimate can be made of the amount of that obligation. The obligation is not recorded and is disclosed as a contingent liability if any of the following apply: (i) it is not probable that an outflow will be required, (ii) the amount cannot be estimated reliably, or (iii) the existence of the outflow can only be confirmed by the occurrence of a future event.

Decommissioning provision

Decommissioning provision is recognized for decommissioning and restoration obligations associated with the Company’s mining reserves. The best estimate of the expenditure required to settle the present obligations at the statement of financial position date is recorded on a discounted basis using the pre-tax risk-free interest rate at each reporting date. The future cash flow estimates are adjusted to reflect the risks specific to the liability. The value of the provision is added to the carrying amount of the associated property, plant and equipment asset and is depreciated over the useful life of the asset. The provision is accreted over time through charges to finance expenses. Changes in the future cash flow estimates resulting from revisions to the estimated timing or amount of undiscounted cash flows or the discount rate are recognized as changes in the decommissioning provision and related assets. Actual decommissioning expenditures up to the recorded liability at the time are charged against the provision as the costs are incurred. Any differences between the recorded liability and the actual costs incurred are recorded as a gain/loss in the Consolidated Statements of Operations and Comprehensive Income (Loss).

Income taxes

Current and deferred income tax expenses are recognized in the Consolidated Statements of Operations and Comprehensive Income (Loss) except to the extent that it relates to items recognized directly in equity or other comprehensive income.

Current income taxes for current and prior periods are measured at the amount expected to be payable or recoverable from the taxation authorities based on the income tax rates enacted at the end of the period

Deferred income tax is recognized using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities and the carrying amounts used for taxation purposes. Deferred income tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are recognized for all temporary differences deductible to the extent future recovery is probable. The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be generated to allow for all or part of the asset to be recovered. Deferred income tax balances are calculated using enacted or substantively enacted tax rates. Deferred income tax balances are adjusted to reflect changes in income tax rates that are enacted or substantively enacted with the adjustment being recognized in the period the change occurs, except items recognized in equity.

Deferred tax assets and liabilities are offset if both of the following thresholds are met: (i) there is a legally enforceable right to offset, and (ii) the deferred tax assets and liabilities either relate to income taxes levied by the same taxation authority on the same taxable entity, or the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on different taxable entities where such different taxable entities either intend to settle current tax liabilities and assets on a net basis, or will have their tax assets and liabilities realized simultaneously.

Deferred income tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination when, at the time of the transaction, such deferred income tax does not affect either accounting income or taxable income.

Leases

Leases that transfer substantially all of the benefits and risks of ownership to the Company are accounted for at the commencement of the lease term as finance leases and are recorded as property, plant and equipment at the fair value of the leased asset, or, if lower, at the present value of the minimum lease payments, together with an offsetting liability. Finance charges are allocated to each period so as to achieve a constant rate of interest on the remaining balance of the liability and are charged directly against income. Capitalized leased assets are amortized over the shorter of the estimated useful life of the asset or the lease term. All other leases are accounted for as operating leases and the lease costs are expensed as incurred.

Preferred shares obligation

Company units that had voting rights and bore a fixed mandatory return were classified as a liability on the Company’s Consolidated Statement of Financial Position.

Revenue recognition

The Company’s revenue, which is comprised principally of sand sales and other services, is generally subject to contractual arrangements, which specify price and general terms and conditions. The Company recognizes sand sales when the risks and rewards of ownership of goods have been transferred to the customer and it is probable that the economic benefits associated with the transaction will flow to the Company. The Company also considers if it has retained any material involvement in the sand being sold and if the revenue and costs related to the sale can be measured reliably.

Revenue for third party sand and chemical distribution is recognized based on contractual arrangements or when services have been completed. Revenue for wellsite solutions is recognized when services are provided. Revenue for rental of tanks is recognized on a monthly basis.

Finance income and expenses

Finance income, consisting of interest income, is recognized as it accrues in the Consolidated Statements of Operations and Comprehensive Income (Loss), using the effective interest method.

Finance expense comprises interest expense on borrowings, costs incurred to obtain financing and impairment losses recognized on financial assets. Amounts paid to financial institutions for the purpose of borrowing funds are capitalized upon recognition and are offset against the outstanding obligation to the financial institution. These costs are amortized over the remaining term of the facility placed.

Borrowing costs are recognized in the Consolidated Statements of Operations and Comprehensive Income (Loss) in the period in which they are incurred using the effective interest method.

Segment Reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses. The Company has one operating segment.

Earnings (Loss) per Share

Earnings (Loss) per Share is calculated by dividing the profit or loss attributable to common and Class B shareholders of the Company by the weighted average number of common shares and Class B outstanding during the period. Diluted earnings per share is calculated by adjusting the earnings and number of shares for the effects of dilutive options and other dilutive potential shares. The effects of anti-dilutive potential shares are ignored in calculating diluted earnings per share. All options are considered anti-dilutive when the Company is in a loss position.

Common Control Transactions

Business combinations involving entities under common control are excluded from IFRS 3, Business Combinations. As there is no specific guidance in IFRS, management has selected an accounting policy that is consistent with IAS 8, Accounting policies. Management has chosen to apply the predecessor value method since inception for common control transactions. The predecessor value method involves accounting for the acquired assets and liabilities at existing carrying values rather than at fair value, which results in no goodwill being recorded. The prior year equity was revised to combine the common control entities as part of the common control transactions.

Basis of consolidation

The consolidated financial statements include the accounts of Source Energy Services Ltd. and its subsidiaries, which are entities over which Source has control. Control exists when the Company is exposed to, or has right to, variable returns from its involvement with an entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as Source, and the accounting policies are aligned with the policies adopted by Source. All intercompany balances and income and expenses have been eliminated upon preparation of the consolidated financial statements. All subsidiaries are 100% owned, with the exception of Source Energy Services Canada LP, which has a 3.74% non-controlling interest.

Non-controlling interests

Non-controlling interests represent equity interests in subsidiaries owned by outside parties. The share of net assets of subsidiaries attributable to non-controlling interests is presented as a component of equity. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests, even if doing so causes the non-controlling interests to have a deficit balance.

Share-based payments

The Company's Share Based Payment Plan, effective as of April 13, 2017, is available to directors, officers and certain employees as determined by the Company's Board of Directors. The Plan allows for the granting of options to purchase Common shares to a maximum number equal to 10% of the issued and outstanding Common Shares of the Company. The price of each share purchase option granted is set by the Company's Board of Directors based on the market value of the Company's shares on the date of the grant.

At each statement of financial position date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the number of equity instruments that will ultimately vest.

The fair value of options is measured by using the Black-Scholes model. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. The model requires the input of highly subjective assumptions. Expected volatility of the stock is based on a combination of the historical stock price of the Company and comparable companies in the industry. The expected term of options represents the period of time that options granted are expected to be outstanding. The risk-free rate is based on the Government of Canada's Canadian Bond Yields with a remaining term equal to the expected life of the options used in the Black-Scholes valuation model.

The Company has also granted Deferred Stock Units, Restricted Stock Units and Performance Stock Units ("DSUs", "RSUs" and "PSUs") to directors and certain employees. The DSUs, RSUs and PSUs are expected to be settled for cash payment and accordingly are considered a liability settled award for accounting purposes.

Financial Instruments

(i) Classification and measurement

Recognition

Financial assets and liabilities are generally initially recognized at fair value when the Company becomes a party to the contractual provisions of the instrument. However, where the fair value differs on initial recognition from the transaction price and the fair value is not measured using entirely observable inputs the instrument is recognized at the transaction price. In the case of instruments not measured at fair value through profit and loss, incremental, directly attributable transaction costs are accounted for as an adjustment to the carrying amount and in all other cases such transaction costs are expensed as incurred.

The Company evaluates contracts to purchase non-financial items which are subject to net settlement (whether explicitly or in substance) to determine if such contracts should be considered derivatives or if they were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements ("Own Use"). If such contracts qualify as "Own Use" they are considered executory contracts outside the scope of financial instrument accounting.

The Company evaluates financial and non-financial contracts not measured at fair value through profit and loss to determine whether they contain embedded derivatives. An embedded derivative is a component of a hybrid (consolidated) instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the consolidated instrument vary in a way similar to a stand-alone derivative. For such instruments, an embedded derivative is separated where the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract and a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.

Financial assets and liabilities are not offset unless they are with a counterparty for which the Company has a legally enforceable right to settle the financial instruments on a net basis and the Company intends to settle on a net basis.

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company discloses more details about fair value of financial instruments in Note 4.

Derecognition

Financial assets are derecognized when the rights to receive cash flows from the assets have expired or it transfers the financial instrument in a manner that qualifies for derecognition through transfer of substantially all risks and rewards or transfer of control.

Financial liabilities are derecognized upon extinguishment. A modification of a financial liability with an existing lender is evaluated to determine whether the amendment results in substantially different terms in which case it is accounted for as an extinguishment.

Classification

The financial instruments of the Company are classified in the following categories: fair value through profit or loss (which includes financial assets and financial liabilities), loans and receivables, available-for-sale, derivative liabilities and other financial liabilities. The classification depends on the nature and purpose of the financial instrument and is determined at the time of initial recognition.

Financial assets and financial liabilities acquired principally for the purpose of selling or repurchasing in the short term are classified as “fair value through profit or loss” and are recognized initially at fair value with changes in fair value recognized in the Consolidated Statements of Operations and Comprehensive Income (Loss).

Financial assets classified as “loans and receivables” are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially measured at fair value and subsequently carried at amortized cost using the effective interest method of amortization. The Company’s loans and receivables are comprised of cash, accounts receivable, and due from (to) related parties.

Financial assets and liabilities classified as “available-for-sale” are measured at fair value, with changes in fair value recognized in other comprehensive income. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. The Company has no available-for-sale financial assets.

Other financial liabilities include accounts payable and accruals and long-term debt. Financial instruments in this category are initially recorded at fair value, net of any transaction costs incurred, and subsequently carried at amortized cost using the effective interest method.

(ii) Equity instruments

The Company’s common units are classified as equity. Incremental costs directly attributable to the issue of common units are recognized as a reduction from equity. Company units which have redemption rights and include fixed annual returns have been classified as long-term liabilities.

(iii) Impairment

At each statement of financial position date, the Company assesses whether there is objective evidence that financial assets, other than those designated as “fair value through profit or loss” are impaired. When impairment has occurred, the cumulative loss is recognized in the Consolidated Statements of Operations and Comprehensive Income (Loss). For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to the Consolidated Statements of Operations and Comprehensive Income (Loss) in the period. Impairment losses may be reversed in subsequent periods.

Recently Issued Accounting Standards Not Yet Applied

Unless otherwise noted, the following revised standards and amendments are effective for annual periods beginning on or after January 1, 2018 with earlier application permitted.

(i) IFRS 9 Financial Instruments

On January 1, 2018, the Company will adopt IFRS 9 *Financial Instruments*, which is the result of the first phase of the International Accounting Standards Board ("IASB") project to replace IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 introduces a single approach to determine whether a financial asset is measured at amortized cost or fair value and replaces the multiple rules in IAS 39. The approach is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The IAS 39 measurement categories for financial assets will be replaced by fair value through profit or loss, fair value through other comprehensive income ("FVOCI") and amortized cost. The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale. IFRS 9 retains most of the IAS 39 requirements for financial liabilities. However, where the fair value option is applied to financial liabilities, the change in fair value resulting from an entity's own credit risk is recorded in OCI rather than net earnings, unless this creates an accounting mismatch. A new expected credit loss model for calculating impairment on financial assets replaces the incurred loss impairment model used in IAS 39. The new model will result in more timely recognition of expected credit losses. In addition, IFRS 9 includes a simplified hedge accounting model, aligning hedge accounting more closely with risk management.

The Company has assessed the impact of IFRS 9 on its financial statements and will be amending its allowance for doubtful accounts policy to reflect adoption of this standard as of January 1, 2018. Adoption of this new policy is not expected to have a material impact on its financial statements, given the nature of Source's customers and its historically modest credit losses.

(ii) IFRS 15 Revenue from Contracts with Customers

On January 1, 2018, the Company will adopt IFRS 15 *Revenue from Contracts with Customers*. IFRS 15 was issued in May 2014 and will replace IAS 11 *Construction Contracts*, IAS 18, *Revenue Recognition*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfers of Assets from Customers*, and SIC-31 *Revenue – Barter Transactions Involving Advertising Services*. IFRS 15 provides a single, principle-based five-step model that will apply to all contracts with customers with limited exceptions, including, but not limited to, leases within the scope of IAS 17 and financial instruments and other contractual rights or obligations within the scope of IFRS 9 *Financial Instruments*, IFRS 10 *Consolidated Financial Statements* and IFRS 11 *Joint Arrangements*. In addition to the five-step model, the standard specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities. The Company has completed the analysis of its customer contracts and determined that there is no material impact to the timing of recognition or measurement of revenue under IFRS 15. However, the Company continues to work through the impact of the additional disclosures required for the quarterly and annual financial statements.

(iii) IFRS 16 Leases

On January 1, 2019, the Company will adopt IFRS 16 *Leases*. The new standard requires lessees to recognize a lease liability reflecting future lease payments and a 'right-of-use-asset' for most lease contracts. The standard permits a 'simplified approach' that includes certain reliefs related to the measurement of the right-of-use-asset and the lease liability, rather than full retrospective application. IFRS 16 must be applied for financial years commencing on or after January 1, 2019. Early adoption is permitted, but only in conjunction with IFRS 15. The Company is in the process of assessing the impact of IFRS 16, however, given the significant use of leased rail cars and heavy equipment, the Company expects the standard to have a material impact on its financial statements.

4. FINANCIAL INSTRUMENT AND RISK MANAGEMENT

(a) Risk management overview

The Company's activities expose it to a variety of financial risks including credit risk, liquidity risk and market risk. Further quantitative disclosures are included throughout these consolidated financial statements. The Company employs risk management strategies and polices to ensure that any exposures to risk are in compliance with the Company's business objectives and risk tolerance levels. While the Board of Directors has the overall responsibility for the Company's risk management framework, the Company's management has the responsibility to administer and monitor these risks.

(b) Fair value of financial instruments

The fair values of cash, accounts receivable, overdraft, accounts payable and accrued liabilities approximate their carrying values due to the short-term maturity of those instruments. The fair value of the asset backed loan facility approximates the carrying value as it bears interest at market floating rates consistent with market rates for similar debt. Based on the closing market price at December 31, 2017, the fair value of the senior secured notes is $119,020 ($110.5 dollars per $100 dollars). Refer to Note 12 for detail regarding the partial repayment of the Notes.

The Company analyzes financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1: Values based on unadjusted quoted prices in active markets for identical assets or liabilities, accessible at the measurement date.

Level 2: Values based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.

Level 3: Values based on prices or valuation techniques that require inputs for the asset or liability that are not based on observable market data (unobservable inputs).

A financial instrument is classified as Level 3 if one or more of its unobservable inputs may significantly affect the measurement of its fair value. Appropriate inputs are chosen so that they are consistent with market evidence or management judgment. Due to the unobservable nature of the inputs, there may be uncertainty about the value of Level 3 financial instruments.

(All amounts are in thousands of Canadian dollars, unless otherwise noted)

		Fair Value		
December 31, 2017	**Carrying amount**	**Level 1**	**Level 2**	**Level 3**
Financial liabilities at Fair value through profit and loss:				
Derivative Liabilities	$2,799	-	$327	$2,472
Financial liabilities at amortized cost:				
$107.71M of Senior Secured First Lien Notes	$93,727	$119,020	-	-
Finance lease obligations – current	$957	-	$957	-
Finance lease obligations – long term	$726	-	$726	-

		Fair Value		
December 31, 2016	**Carrying amount**	**Level 1**	**Level 2**	**Level 3**
Financial liabilities at Fair value through profit and loss:				
$12,500 and $7,500 promissory note	$29,270	-	-	$29,270
Derivative Liability	$14,941	-	$125	$14,816
Financial liabilities at amortized cost:				
$130.0M of Senior Secured First Lien Notes	$110,171	$137,800	-	-
$5,500 and $2,000 promissory notes	$7,500			$7,500
Finance lease obligations – current	$1,109	-	$1,109	-
Finance lease obligations – long term	$524	-	$524	-

(c) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Substantially all of the Company’s accounts receivable are due from purchasers of proppants and logistics service and are subject to normal industry credit risk.

The Company’s revenues are generally derived from a group of large and reputable oilfield services and oilfield production customers. Orders for proppants are subject to the Company’s credit and collection programs. The five largest customers account for 82% of total revenue in 2017 (87% in 2016) and two of those customers (two in 2016), account for more than 10% of total revenue individually.

The Company performs ongoing credit evaluations of its customers and establishes an allowance for doubtful accounts based on credit risk applicable to certain accounts, historical trends and other relevant information. The Company’s maximum exposure to credit risk is the fair value of cash and accounts receivable on the statement of financial position shown net of an appropriate allowance for doubtful accounts.

Significant changes in industry conditions will increase the risk of not collecting receivables. Management believes the risk is often mitigated by the size and reputation of the companies to which they extend credit. As at December 31, 2017 and 2016, the Company's accounts receivable comprised the following:

As at	**December 31, 2017**	**December 31, 2016**
0 – 30 days	$44,604	$11,179
31 – 60 days	5,643	3,055
61 – 90 days	401	96
91+ days	3,466	304
Total Trade Receivables	$54,114	$14,634

(All amounts are in thousands of Canadian dollars, unless otherwise noted)

The Company manages the credit exposure related to cash by using major Canadian chartered banks and monitors all short-term deposits to ensure an adequate rate of return. Given these institutions, management does not expect any counterparty to fail to meet its obligations.

For the year ended December 31, 2017, $1,206 of bad debt expense was recorded (2016 - $2,929).

(d) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company's approach to managing liquidity risk includes preparing operating and capital budgets and forecasts and monitoring performance against the budgets and forecasts. The Company may seek additional financing based on the results of these processes. The Company's ongoing liquidity is impacted by various external events and conditions, including commodity price fluctuations, foreign currency fluctuations, and changes in global economic conditions.

The financial liabilities on the Consolidated Statement of Financial Position consist of accounts payable and accrued liabilities, long-term debt, shareholder loans, senior secured notes and amounts due to related parties. The Company manages this risk through detailed monitoring of budgeted and projected operating results and cash requirements.

The Company expects to repay its financial liabilities in the normal course of operations and to fund future operational and capital requirements through operating cash flow, as well as future debt and equity financings. The Company also has a credit facility to facilitate the management of liquidity risk.

The Company's planned cash outflows relating to financial liabilities are outlined in the table below:

Year ended December 31, 2017	Total	2018	2019	2020	2021	2022	2023 and thereafter
Accounts payable and accruals	$38,765	38,765	-	-	-	-	-
Finance leases	$1,683	957	399	181	35	111	-
Bank debt[(b)]	$33,765	-	33,765	-	-	-	-
Notes Payable[(a)]	$152,454	11,310	11,310	11,310	118,524	-	-

(a) Includes interest for future periods.
(b) Effective February 13, 2018, Source extended the maturity date to December 8, 2019.

(e) Market risk

Market risk is the impact changes in market prices, foreign exchange rates, and interest rates may have on the Company's net earnings, or the value of its financial instruments. Market risk is largely outside the control of the Company. The objective of the Company is to manage and mitigate market risk exposures within acceptable limits, while maximizing returns. Primary market risks are as follows:

Foreign currency risk

The Company is exposed to currency price risk on sales denominated in US dollars to the extent that the receipt of payment of the U.S. denominated accounts receivable are subject to fluctuations in the related foreign exchange rate. In addition, foreign currency risk exists on US costs of manufacturing and transporting inventory for sale to the extent that the payment of those costs are US dollar denominated accounts payable are subject to fluctuations in the foreign exchange rate. Included in accounts receivable and accounts payable and accrued liabilities at December 31, 2017 are $34,136 (2016 - $1,693) and $18,937 (2016 - $8,380) denominated in foreign currency respectively. The net effect of each 1% change in foreign exchange would have an impact of $409 for 2017 net income (2016 - $179). As at December 31, 2017 and December 31, 2016, the Company had no forward exchange rate contracts in place.

The Company has a customer contract, expiring March 31, 2020, that includes a foreign exchange rate collar. Under the terms of the contract, pricing will be adjusted if the daily US dollar to Canadian dollar closing exchange rate is either below 1.25 or exceeds 1.40. This embedded derivative is separated from the contract and accounted for as a derivative liability and is measured at Fair value through profit or loss. The fair value of the derivative is based on valuation techniques that are not based on observable market data. The inputs used for the valuation are the notional value of the contract, the US dollar discount curve obtained from Bloomberg, and the US dollar to Canadian dollar foreign exchange forward curve, the US dollar to Canadian dollar foreign exchange volatility matrix and US dollar to Canadian dollar spot rate obtained from Thomson Reuters. The fair value of the derivative liability as at December 31, 2017 is $2,472 (2016 - $0).

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate risk to the extent that changes in market interest rates impact its borrowings under the floating rate credit facility. The Company is exposed to interest rate price risk on its asset backed loan facility that bear interest at floating rates. The Company had no interest rate swaps or financial contracts in place as at or during the periods ended December 31, 2017 or December 31, 2016.

For the year ended December 31, 2017, a 1% change to the effective interest rate would have an impact of approximately $338 (2016 - $175) on net income and cash flow.

(f) Capital management

The Company’s capital management policy is to maintain a strong capital base that optimizes the Company’s ability to grow, maintain shareholder and creditor confidence and to provide a platform to create value for its common shareholders. The Company's management is responsible for managing the Company's capital and do so through regular reviews of financial information including budgets and forecasts. The Company's Directors are responsible for overseeing this process. The Company considers its capital structure to include equity, senior secured notes, and its credit facility.

The Company monitors capital based on its current working capital, available bank line, projected cash flow from operations and anticipated capital expenditures. In order to manage its capital structure, the Company prepares annual capital expenditure and operating budgets, which are updated as necessary. The annual and updated budgets are prepared by the Company’s management and approved by the Company’s Board of Directors.

In order to maintain or adjust the capital structure, the Company may issue share capital, seek debt financing and adjust its capital spending to manage its current and projected capital structure. The Company's ability to raise additional debt or equity financing is impacted by external conditions, including the global economic conditions. The Company continually monitors economic and general business conditions.

The Company's share capital is not subject to external restrictions but the amount of the bank operating facility is determined with reference to inventory and accounts receivable levels maintained.

The Company is subject to externally imposed capital requirements for the asset backed loan facility, requiring the Company to maintain a springing fixed charge ratio of (a) 1.10:1 up to and including June 30, 2017, and then (b) 1.25:1 at all times thereafter to be measured when Source’s excess availability is less than 20% of the lesser of the borrowing base and the operating facility. The fixed charge coverage ratio is defined as the ratio of (i) Earnings before interest, tax, depreciation and amortization for the twelve calendar months ending at such fiscal quarter end less unfinanced capital expenditures, cash taxes and distributions to (ii) the interest expense paid in cash plus the amount of debt which has a scheduled due date or is otherwise required to be repaid or paid for the twelve calendar months ending at such fiscal quarter end. As of December 31, 2017, the excess availability was less than 20%. Source had a fixed charge ratio of 3.3 and is compliant with all covenants as of December 31, 2017.

(All amounts are in thousands of Canadian dollars, unless otherwise noted)

The Company's capital management policy has not changed during the years ended December 31, 2017 or December 31, 2016.

5. ACQUISITIONS

On April 18, 2017, the Company completed a purchase and sale agreement for all the outstanding membership interests of Sand Products Wisconsin, LLC. The transaction involved the purchase of a sand mine and associated washing, drying and rail facilities, other related assets, as well as prepaid royalties and the assignment of various land and mining leases. The facilities had not been operated prior to the purchase.

The aggregate purchase price of US$45,000 ($59,914 CAD) was financed by cash proceeds raised as part of the Company's IPO that closed on April 13, 2017. The fair value of the assets and liabilities acquired were as follows:

	$
Inventories	367
Prepaids	1,294
Prepaid royalties	2,138
Property, plant & equipment	59,261
Decommissioning Obligation	(3,146)
Total	**$59,914**

On November 7, 2017, the Company completed an asset purchase for certain assets and operations of Preferred Proppants, LLC. Review of the Acquisition by the Canadian Competition Bureau is underway. The Acquisition involved the purchase of, among other things, a Northern White proppant mine and associated washing, drying and rail facilities in Blair, Wisconsin and two frac sand terminals located in British Columbia.

The aggregate purchase price of US$86,136 ($110,149 CAD) was financed by cash proceeds raised from the November 7, 2017 equity offerings as well as a draw on the Credit Facilities. Refer to Note 15 for further details of the equity offerings. The fair value of the assets and liabilities acquired were as follows:

	$
Prepaids and Receivables	1,658
Inventories	15,175
Mineral Resources	32,224
Property, plant & equipment	66,831
Decommissioning Obligation	(5,739)
Total	**$110,149**

The above fair value allocations are preliminary and subject to change.

6. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash operating assets and liabilities for the years ended December 31, 2017 and 2016 are as follows:

	2017	**2016**
Accounts receivable	$(38,024)	$7,100
Prepaid expenses and deposits	(1,251)	(308)
Inventory	(7,589)	(5,551)
Accounts payable and accrued liabilities	15,034	1,774
Changes in non-cash working capital	$(31,830)	$3,015

Included in change in inventory is $471 for 2017 (2016 - $1,297) related to depreciation for sand producing equipment.

(All amounts are in thousands of Canadian dollars, unless otherwise noted)

Changes in non-cash investing assets and liabilities for the years ended December 31, 2017 and 2016 are as follows:

	2017	**2016**
Prepaid expenses and deposits	$-	$259
Accounts payable and accrued liabilities	6,168	(5,165)
Changes in non-cash working capital	$6,168	$(4,906)

The reconciliation of liabilities arising from financing activities is as follows:

	Senior Secured Notes	Asset backed loan facility	Finance lease obligations	Preferred Shares Obligation	Due to Sand Royalty LP
As at December 31, 2016	$110,171	$12,291	$1,633	$70,513	$4,599
Cash changes:					
Proceeds on long-term debt	-	70,187	-	-	-
Repayments on long-term debt	-	(49,618)	(1,227)	(17,250)	(4,670)
Repayment of senior secured notes	(22,290)	-	-	-	-
Non-cash and other changes:					
Accretion of financing costs	5,846	342	-	-	-
Accrued interest	-	-	-	1,464	71
Common share settlement	-	-	-	(54,727)	-
Finance lease additions	-	-	1,582	-	-
Unrealized Foreign Exchange (Gain) Loss	-	(272)	(144)	-	-
Financing costs incurred	-	(195)	-	-	-
Other	-	-	(161)	-	-
As at December 31, 2017	$93,727	$32,735	$1,683	$-	$-

7. INVENTORIES

Inventory consists of three main classifications:

As at,	**December 31, 2017**	**December 31, 2016**
Unprocessed sand and work in progress	$29,093	$17,807
Sand available for shipment	16,258	8,423
Spare parts and supplies	3,633	1,480
Total inventories	$48,984	$27,710

Spare parts and supplies include spare parts and supplies for routine facilities maintenance. Included in the inventory balance is the depreciation expense related to sand producing properties of $3,729 as of December 31, 2017 (2016 - $4,108). The total amount of inventory expensed through cost of sales during the year was $171,451 (2016 - $98,143). No inventory write down was recorded for the year ended December 31, 2017 (2016 - $439).

8. MINERAL RESOURCES

Balance as at January 1, 2017	$-
Mineral resources acquired	32,224
Depletion	(114)
Exchange Differences	(604)
Balance as at December 31, 2017	$31,506

(All amounts are in thousands of Canadian dollars, unless otherwise noted)

Mineral resources were acquired as part of the asset purchase for certain assets and operations of Preferred Proppants, LLC. See Note 5 for further detail. Depletion is based on the units of production method.

9. PROPERTY, PLANT AND EQUIPMENT

	Land & Building	Equipment & Vehicles	Other	Construction in Progress	Total
Cost					
Balance as at January 1, 2016	$108,253	$83,284	$5,049	$15,724	$212,310
Assets acquired	9,473	180	223	2,340	12,216
Disposals	(2,235)	(1,641)	(17)	(9)	(3,902)
CIP Completed	661	464	1	(1,126)	-
Exchange Differences	(2,282)	(1,703)	(90)	(137)	(4,212)
Balance as at December 31, 2016	$113,870	$80,584	$5,166	$16,792	$216,412
Assets acquired	80,518	59,390	286	33,933	174,127
Disposals	-	(130)	-	(41)	(171)
Exchange Differences	(8,279)	(5,487)	(198)	(655)	(14,619)
Balance as at December 31, 2017	$186,109	$134,357	$5,254	$50,029	$375,749
Accumulated Depreciation					
Balance as at January 1, 2016	$(11,891)	$(16,247)	$(2,706)	$-	$(30,844)
Depreciation	(6,037)	(6,095)	(927)	-	(13,059)
Disposals	183	377	10	-	570
Exchange Differences	147	201	63	-	411
Balance as at December 31, 2016	$(17,598)	$(21,764)	$(3,560)	$-	$(42,922)
Depreciation	(6,762)	(7,887)	(512)	-	(15,161)
Disposals	-	76	-	-	76
Exchange Differences	931	1,031	185	-	2,147
Balance as at December 31, 2017	$(23,429)	$(28,544)	$(3,887)	$-	$(55,860)
Carrying Amounts					
At December 31, 2016	96,272	58,820	1,606	16,792	173,490
At December 31, 2017	162,680	105,813	1,367	50,029	319,889

The Company incurred stripping costs of $4,273 in 2017 (December 31, 2016 - $3,541). $2,796 of it remains unamortized in Property, plant and equipment as of December 31, 2017 (December 31, 2016 - $445). The amount of $3,067 has been included in Cost of sales – depreciation for 2017 (December 31, 2016 - $3,110). Unamortized stripping costs of $1,609 in 2017 (December 31, 2016 -$1,624) remain in inventory.

Assets under construction represent facilities that are being built at period end. Assets under construction are not amortized until the asset is deemed to be ready for use. Once deemed ready for use, the assets under construction will be allocated to their corresponding capital asset group and commence depreciating.

For the year ended December 31, 2017 the Company recorded impairment of property plant and equipment of $0 (December 31, 2016 - $1,414). Prior year impairment of assets was based on specific identifiable assets.

Indicators of impairment are considered at each reporting period in accordance with the accounting policy stated in Note 2. No indicators of impairment were noted for the year ended December 31, 2017.

10. DEFERRED INCOME TAXES

The only taxable entity of the Company prior to April 13, 2017 was Source Energy Services Canada Holdings Ltd. (“SES Holdings”). Upon the April 13, 2017 IPO, additional entities within the Company’s structure were taxable entities.

(All amounts are in thousands of Canadian dollars, unless otherwise noted)

Income tax expense for the Company is calculated by using the combined federal and provincial and state statutory income tax rates. The provision for income tax (deferred and current) differs from that which would be expected by applying statutory rates. A reconciliation of that difference is as follows:

	December 31, 2017	December 31, 2016
Earnings (Loss) Before Income Taxes	($11,114)	$332
Statutory Income Tax Rate	27.00%	27.00%
Expected Income Taxes	(3,000)	90
Increase (Decrease) in taxes from:		
Non-deductible expenses	160	16
Share based compensation	1,467	-
Finance Fees	-	(799)
Unrealized foreign exchange and derivatives	70	176
Unrecognized deferred tax assets	(2,741)	-
Rate Differential on Foreign Activities	1,960	-
Other	(95)	1
Total Income Tax Expense (Recovery)	**($2,179)**	**($516)**

Deferred income tax expense	($2,179)	($516)
Current income tax expense	-	4
Total Income Tax Expense (Recovery)	**($2,179)**	**($512)**

Significant components of the deferred income tax assets are as follows.

	December 31, 2017	December 31, 2016
Difference between tax and reported amounts for depreciable assets	($13,722)	($75)
Finance fees	4,654	663
Foreign exchange on Loans	2,425	-
Tax loss carryforwards recognized	8,019	7
Decommissioning provision	3,247	-
Accretion	1,437	-
Other	1,949	2
Deferred Income Tax Asset	**$8,009**	**$597**

The movement in deferred tax balances during the year are as follows.

	December 31, 2017	December 31, 2016
Opening deferred tax asset (liability)	**$597**	**$81**
Recognized in Oher comprehensive income	54	-
Recognized in Equity	5,070	-
Recognized in Profit or Loss	2,179	516
Currency translation	109	-
Closing deferred tax asset (liability)	**$8,009**	**$597**

(All amounts are in thousands of Canadian dollars, unless otherwise noted)

The Company recognized a deferred tax asset of $5,070 related to the share issuance costs.

The Company did not initially recognize a deferred income tax liability of $4,578 that arose on the initial public offering.

The Company has Canadian and US non-capital losses as at December 31, 2017 of $6,365 (2016 - $24) and $21,672 (2016 - $0) respectively. Canadian and U.S. losses expire beginning in 2037.

11. DEFERRED REVENUE

The Company enters into storage subscription agreements with some customers to provide them with guaranteed proppant storage at the Company's facilities. Under the terms of the agreements customers pay a non-refundable subscription fee entitling them to a discount of $2.50 per metric tonne from the Company's normal sale price. The subscription fees have been deferred and are recognized as revenue as proppant is sold to the subscribers.

The Company has estimated the recognition of these deferred revenues with the assumption of equal usage of storage facilities, and minimum frac sand supply over the term of the agreements.

12. LONG TERM DEBT

As at	December 31, 2017	December 31, 2016
Senior Secured First Lien Notes, due on December 15, 2021, bearing interest at 10.5% per annum	$93,727	$110,171
Asset Backed Loan facility (the "ABL") due December 2019. Interest is based on floating rates dependent upon the amount of the facility used.	33,271	12,995
Unamortized debt issuance costs for the ABL	(536)	(704)
Finance Lease obligations related to equipment, bearing interest at rates ranging from 4.25% to 12% per annum, with final payments due between January 2018 and October 2022.	1,683	1,633
Other long-term debt	1,117	256
	$129,262	**$124,351**
Less: current portion [(a)]	(33,692)	(1,109)
	$95,570	$123,242

(a) Effective February 13, 2018, Source extended the maturity date of its ABL to December 8, 2019.

On December 8, 2016, the Company issued a $130.0M Senior Secured First Lien Notes (the "Notes") which bear interest at 10.5% per annum, and mature December 15, 2021. The Notes are secured by a fixed and floating charge over all of the assets of the business except Accounts Receivable and Inventories, which the Notes have a second charge on. Each original debt holder was entitled to a relevant right of 4% of the equity value of the Company upon various liquidation or change of control events. The IPO on April 13, 2017 represented a change in control event. The Company elected to settle the rights through share-based payments. On May 29, 2017, 1,005,831 shares were issued at the IPO offering price of $10.50 per share to the registered Noteholders. This issuance extinguished the relevant right derivative liability.

There are prepayment options, where the Company may redeem 35% of the aggregate principal amounts of the Notes with the net proceeds of an equity offering by Source at a redemption price of 110.5% of the principal amount. The Company may also redeem all or part of the Notes at any time prior to December 15, 2018 for 100% of the principal, accrued and unpaid interest, and the applicable premium as defined in the agreement. After December

(All amounts are in thousands of Canadian dollars, unless otherwise noted)

15, 2018, the Notes may be redeemed in whole or in part at the applicable percentage (2018 - 107.875%, 2019 - 103.9375%, 2020 - 100%), plus accrued and unpaid interest. The prepayment option has been classified as a derivative liability and is measured at fair value through profit or loss, for a total of $327 for the prepayment option as at December 31, 2017 (December 31, 2016 - $125). Changes in fair value of the derivative liability is recorded through the Consolidated Statements of Operations and Comprehensive Income (Loss). The Company has recorded a fair value loss of $202 on the prepayment option for the year ended December 31, 2017 (December 31, 2016 - $48). The Company exercised a portion of the prepayment option as of June 5, 2017 and repaid $22,290 (17.15%) of the Notes using proceeds from the IPO offering. The $25,784 payment consisted of the principal of $22,290, accrued interest of $1,154 and a make whole premium of 10.5%. Source deferred $5,915 in financing costs for the Notes, with $855 of these costs amortized for the year ended December 31, 2017.

As of December 31, 2017, the $70,000 ABL facility, had a maturity date of December 31, 2018. However, effective February 13, 2018, the maturity was extended to December 8, 2019. This facility is secured by floating first lien charge on the accounts receivable and inventory of the Company under a general business security agreement and a second lien charge on all other assets of the business. The ABL facility bears interest based on the bank's prime lending rate, the banker's acceptances or LIBOR rates, plus an applicable margin depending on the amount of excess availability. The amount available under the general operating facility is subject to a borrowing base formula applied to accounts receivable and inventories. At December 31, 2017, $33,765 was drawn under this facility (less $536 in unamortized finance costs and cash on hand of $494 for a net balance of $32,735) (December 31, 2016 - $17,500 drawn, less cash on hand of $4,505 for a net balance of $12,995). $7,881 ($7,954 at December 31, 2016) was committed to supporting letters of credit under the facility, with $13,019 (December 31, 2016 - $7,292) available. The borrowing base is updated monthly at minimum. Letters of credits have been issued for the amount of $14,153. To date, no amounts have been drawn against these letters of credit.

The ABL facility includes a springing fixed charge ratio of (a) 1.10:1 up to and including June 30, 2017, and then (b) 1.25:1 at all times thereafter to be measured when the Company's excess availability is less than 20% of the lesser of the borrowing base and the operating facility. As of December 31, 2017, the excess availability was less than 20%. Source's fixed charge coverage ratio as defined in the ABL facility agreement was 3.3. Source deferred $727 in financing costs for the ABL facility, with $191 of these costs amortized as at December 31, 2017.

Interest on the above facility amounted to $1,212 for the year ended December 31, 2017 (December 31, 2016 - $6,265). Interest on the above notes amounted to $12,874 for the year ended December 31, 2017 (December 31, 2016 - $568). Effective interest rate for 2017 is 11.12% (2016 – 7.05%).

13. DECOMMISSIONING PROVISION

	December 31, 2017	December 31, 2016
Balance, Beginning of year	**$4,300**	**$1,639**
Liabilities incurred	9,695	1,144
Liabilities settled	(1,226)	(3,220)
Accretion	76	56
Changes in estimate	2,055	4,730
Changes in F/X Rate	(237)	(49)
Balance, end of year	**$14,663**	**$4,300**

The Company's decommissioning provision relates to reclamation of land and facilities where the mine operates. Management estimates the costs to abandon and reclaim its properties based on current reclamation technology, acres disturbed and the estimated time period in which these costs will be incurred in the future. The total future estimate of undiscounted cash flows required to settle the provisions is $16,817 at December 31, 2017 (December 31, 2016 - $4,765), which has been discounted using risk-free rate of 1.98% at December 31, 2017 (December 31, 2016 - 1.50%). These obligations are to be settled based on the economic lives of the underlying assets, which is currently estimated to be between 8 and 20 years.

(All amounts are in thousands of Canadian dollars, unless otherwise noted)

14. PREFERRED SHARES OBLIGATION

As at	December 31, 2017	December 31, 2016
Preferred shares obligation	$70,513	$66,032
Payments	(17,250)	-
Accrued preferred distribution	1,464	4,481
Amount settled with common shares	(54,727)	-
	$-	**$70,513**

The preferred share obligation was settled as part of the Company's IPO. The Class B shareholders entered into an exchange agreement with the Company to transfer their respective limited partnership units in Source Canada LP to the Company in exchange for 5,212,081 Common Shares and an aggregate cash payment in the amount of $17,250.

15. SHAREHOLDERS' EQUITY

Upon closing of the Company's IPO on April 13, 2017, the Company issued 16,666,667 common shares at $10.50 per share for gross proceeds of $175,000. Total transaction costs incurred on the IPO were $13,086, which was recognized as a reduction in equity as at December 31, 2017. Transaction costs consisted of underwriters' commission and fees, audit, legal, filing, printing, translation and miscellaneous fees. Prior to the IPO, share capital of ten Canadian dollars existed in Source.

The existing SES Canada and SES US LP partnership units were exchanged for units of Source common stock, for a total of 23,845,618 common and 1,300,154 Class B shares, or $264,031, the fair value at the IPO share price. TriWest Capital Partners currently own 25% of the outstanding shares of Source.

The Class B shares are held by SES Sand Holdings US, a subsidiary of TriWest which is a related party, who own 3.74% of the shares of Source Energy Services Canada LP, a subsidiary of Source, and may be converted at the option of the holder into common shares of Source on a one for one basis. Class B shares are entitled to vote at shareholder meetings, but are not entitled to dividends from Source. However, they are entitled to an equivalent distribution on a per share basis from Source Energy Services Canada LP.

The Company also settled the below related party loans by issuance of common shares:

- $37,658 shareholder loan payable – which was made up of four promissory notes that were issued between March 27, 2014 and February 28, 2017, with varying interest terms up to 25% per annum and varying maturity dates. This liability was settled with 3,586,515 shares. Refer to Note 20 for further information.
- $71,977 preferred share obligation – which was issued as part of a reorganization that took place on October 16, 2013, which were non-voting, but entitled to stepped interest return, with no specific terms of repayment. This was settled with $54,727 in common shares (5,212,081 shares) and $17,250 cash. Refer to Note 14 for further information.

On November 7, 2017, the Company issued 11,235,000 common shares at $8.35 per share for gross proceeds of $93,812. Total transaction costs incurred on the equity offering were $5,428, which was recognized as a reduction in equity. The equity is made up of a $28,807 public bought deal equity financing, and a $65,005 concurrent private placement equity financing. The underwriters were granted an option by the Company to purchase up to an additional 450,000 common shares at the offering price of $8.35, exercisable from time to time, in whole or in part, for a period of 30 days from the closing of the offering. The underwriters exercised this option, in full, and the shares are included in the gross proceeds amount above.

(All amounts are in thousands of Canadian dollars, unless otherwise noted)

16. SHARE BASED COMPENSATION

The Company's Share Based Compensation Plan, effective as of April 13, 2017, is available to directors, officers and certain employees as determined by the Company's Board of Directors. The Plan allows for the granting of options to purchase Common shares to a maximum number equal to 10% of the issued and outstanding Common Shares of the Company. The price of each share purchase option granted is set by the Company's Board of Directors based on the market value of the Company's shares on the date of the grant.

The options issued to date were granted in connection with the IPO and therefore vest 1/3 on the grant date, and 1/3 on the anniversary date of the grant over a two-year period, and expire 5 years from the issue date. Future grants may not follow this vesting profile.

In 000's	Options outstanding	Range of Exercise Price
Outstanding at April 13, 2017	-	-
Granted	2,581	$10.50
Exercised	-	-
Cancelled	-	-
Forfeited	-	-
Expired	-	-
Outstanding at December 31, 2017	2,581	$10.50

The per share weighted average fair value of stock options granted during the period ended December 31, 2017 was $10.50, based on the date of grant which was the day the IPO closed. The stock options were valued using the Black-Scholes option pricing model, using the following inputs:

Forfeiture Rate (%)	5%
Volatility (%)	33%
Risk free interest rate (%)	0.5%
Dividend yield (%)	0%
Option life	5 years

The Employee Equity Participation Plan (EEPP) was settled upon the close of the IPO, with a total expense of $687 incurred for the year ended December 31, 2017. The plan was settled with cash of $409 and 52,772 common shares.

The Company issued 51,426 DSUs to directors of the Company as of April 13, 2017, at the IPO price of $10.50. The DSU's vest and are expensed over the earlier of three years or when a director or other participant leaves. They are payable only when a participant leaves the Company. The DSUs are expected to be settled for cash payment and accordingly were considered a liability settled award for accounting purposes.

The Company issued 97,699 RSUs and 32,715 PSUs to certain employees of the Company as of August 2, 2017, at the IPO price of $10.50. The RSUs will vest 1/3 on the anniversary date of the grant over a three-year period and expire five years from issue date. Subject to achievement of performance criteria set out by the Board of Directors, the PSUs awarded will vest 1/3 on the anniversary date of the grant over a three-year period and expire five years from the issue date. At this time, the RSUs and PSUs are expected to be settled for cash payment and accordingly were considered a liability settled award for accounting purposes. The liability of $505 is included in Other long-term debt, refer to Note 12 for detail.

(All amounts are in thousands of Canadian dollars, unless otherwise noted)

Total share based compensation for the Share Based Payment Plans and the EEPP plan was $6,625 for year ended December 31, 2017 (December 31, 2016 - $24).

17. LOSS PER SHARE

Basic loss per share

The calculation of basic loss per share for the year ended December 31, 2017 was based on the loss available to common shareholders of $(8,515) (2016 - $(43,402)) and a weighted average number of common shares outstanding for the year ended of 44,454,714 (2016 - 23,845,618). The weighted average common shares number used for 2016 represents the Source common share equivalent of the partnership units held at that time. Refer to Note 15 for further detail on the exchange of units for common shares.

	2017	2016
Net loss attributable to common shareholders	**(8,515)**	**(43,402)**
Net loss attributable to NCI shareholders[(a)]	-	-
Diluted net loss to shareholders	**(8,515)**	**(43,402)**

(a) Only attributable to NCI shareholders when in an income position

	2017	2016
Common Shares outstanding, beginning of period	**23,845,618**	**23,845,618**
Issued upon closing of IPO	12,009,133	-
Issued on repayment of shareholder loan	3,755,554	-
Issued on repayment of preferred share obligation	2,584,258	-
Issued pursuant to November 7, 2017 equity offering	1,662,164	-
Issued on settlement of Relevant Transaction Rights	597,987	-
Weighted average common shares outstanding, end of period	**44,454,714**	**23,845,618**
Common shares issuable pursuant to conversion option of Class B Shares[(a)]	-	-
Weighted average number of diluted common shares outstanding, end of period	**44,454,714**	**23,845,618**

(a) Only attributable to NCI shareholders when in an income position

Diluted loss per share

Diluted loss per share is calculated by adjusting the earnings and number of shares for the effects of dilutive options and other dilutive potential shares. The effects of anti-dilutive potential shares and exchangeable shares are ignored in calculating diluted loss per share. All options and exchangeable shares are considered anti-dilutive when the Company is in a loss position.

As the Company was in a loss position for the years ended December 31, 2017 and 2016, all options and exchangeable shares were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

18. OPERATING AND GENERAL & ADMINISTRATIVE COSTS

The Company presents its expenses on the Consolidated Statements of Operations and Comprehensive Income (Loss) using the function of expense method whereby expenses are classified according to function within the

(All amounts are in thousands of Canadian dollars, unless otherwise noted)

Company. This method was selected as it is more closely aligned with the Company's business structure. The Company's functions under IFRS are as follows:

- Cost of sales; and
- Operating, general and administrative

Cost of sales includes direct operating costs (including product costs, direct labour and overhead costs) and depreciation on assets relating to operations. Additional information on the nature of expenses is as follows:

Year ended December 31, 2017	Cost of Sales	Operating and General & Administrative Costs	Total
Direct Materials	$121,258	$-	$121,258
People costs	27,845	11,913	39,758
Equipment costs	16,394	1,454	17,848
Transportation costs	53,275	-	53,275
Facility costs	7,155	3,973	11,128
Selling costs	-	3,975	3,975
Administration costs	-	3,194	3,194
Total	$225,927	$24,509	$250,436

Year ended December 31, 2016	Cost of Sales	Operating and General & Administrative Costs	Total
Direct Material	$74,138	$-	$74,138
People costs	12,451	8,446	20,897
Equipment costs	6,720	5,229	11,949
Transportation costs	24,695	-	24,695
Facility costs	5,253	3,064	8,317
Selling costs	-	3,521	3,521
Administration costs	-	3,606	3,606
Total	$123,257	23,866	147,123

19. COMMITMENTS AND CONTINGENCIES

The Company has various lease commitments regarding equipment, railcars, physical natural gas contract and office space. The leases expire between January 2018 and December 2025. Estimated annual lease commitment is as follows:

2018	$20,987
2019	15,722
2020	11,354
2021	9,723
2022	8,760
Subsequent Years	6,442
Total	**$72,988**

In the ordinary course of conducting business, the Company occasionally becomes involved in legal proceedings relating to contracts, environmental issues, or other matters. While any proceeding or litigation has an element of uncertainty, management of the Company believes that the outcome of any pending or threatened actions will not have a material adverse effect on the business or financial condition of the Company.

(All amounts are in thousands of Canadian dollars, unless otherwise noted)

20. RELATED PARTY TRANSACTIONS

As at	**December 31, 2017**	**December 31, 2016**
Amounts due from related parties:		
Shareholder receivable	$-	$-
Due from GP		32
	$-	**$32**
Amounts due to related parties:		
Due to Sand Royalty LP	$-	$4,599
	$-	**$4,599**
Shareholder loan	**$-**	**$36,770**

Shareholder loans payable were settled as part of the Company's IPO when 3,586,518 shares were issued to settle the four promissory notes and related interest.

The amount due to Sand Royalty LP was settled with a cash payment of $3,504US ($4,670 CAD) as part of the Company's IPO.

Interest expense for the year ended December 31, 2017 includes $1,515 (2016 - $2,428) relating to long-term debt held by common unitholders of the Company. All of the interest has been paid.

As of the IPO date, management fees from related parties are no longer incurred.

During the year ended December 31, 2017, Source contracted with a company that is partially owned by a close member of the CEO's family. This company provided various project management services in locations where Source did not have adequate construction management or construction execution resources. The company also performed various civil and mechanical construction tasks and provided construction materials. This company billed Source $2,876 for the year ended December 31, 2017, of which $1,323 was included in Accounts payable and accruals as at December 31, 2017.

Key management personnel are comprised of the Company's directors and executive officers. Key management personnel compensation comprised:

	2017	**2016**
Short term employment benefits	$2,928	$1,099
Management Fees paid to common unitholders that are not executive officers	414	1,043
Share based payment	5,758	-
Total	**$9,100**	**$2,142**

21. FINANCE EXPENSE

	2017	**2016**
Finance expense	$2,976	$3,094
Interest expense	16,621	16,202
Accretion	8,745	195
Total	**$28,342**	**$19,491**

(All amounts are in thousands of Canadian dollars, unless otherwise noted)

Included in finance expense for the year ended December 31, 2017 is $1,597 in legal and professional fees related to the IPO. The repayment of the senior secured notes and make whole premium resulted in an additional $5,496 in accretion for the year ended December 31, 2017.

22. OPERATING SEGMENTS

The Company considers its operations to be one operating segment. The performance of this segment is measured based on revenue and gross margin as included in internal management reports. These reports are reviewed monthly by the Company's management. The Company has operations in both the United States and Canada; the two geographic regions are summarized in the table below. For major customer information, refer to Note 4(c).

Year ended December 31, 2017	Canadian Operations	United States Operations	Corporate	Total
Sales	272,194	17,304	-	289,498
Total Assets	140,722	317,433	9,802	467,957

Year ended December 31, 2016	Canadian Operations	United States Operations	Corporate	Total
Sales	136,909	2,290	-	139,199
Total Assets	71,688	146,329	1,389	219,406